

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: FY 2002 Annual Statement of Assurance on Management Controls

Each MACOM Commander is required to submit an annual Statement of Assurance on Management Controls. This memorandum provides guidance for the preparation of your FY 2002 statement.

The Federal Managers' Financial Integrity Act requires that the Secretary of Defense submit an annual Statement of Assurance to the President and Congress by December 31. Annual statements from the heads of DoD Components support this statement. The Secretary of the Army's statement is supported, in turn, by annual statements from the MACOM Commanders and HQDA Principals. These annual statements are personal certifications as to the effectiveness of management controls.

Assertions that management controls provide reasonable assurance continue to receive attention from the Congress, Comptroller General, Office of Management and Budget, Under Secretary of Defense (USD) (Comptroller) and DoD Inspector General. Your statement should accurately reflect the status of management controls in your organization and support your assertions of reasonable assurance. Where appropriate, you should consider qualifying your statement by indicating those areas where you do not have reasonable assurance.

Your annual statement should include a cover memorandum signed by you or your principal deputy. It must provide your personal assessment as to whether there is reasonable assurance that the organization's management controls are in place and operating effectively. The balance of the annual statement consists of several sections that support the assertion of reasonable assurance and provide information on any material weaknesses being reported. To assist you, we are providing the following:

- A milestone schedule for the development and staffing of the Secretary of the Army's statement (Enclosure 1).
- Detailed guidance on preparation of your annual statement (Enclosure 2).

The U. S. Army Audit Agency conducts an annual review of the Army's management control process. They will focus on feeder statements that support the Secretary's annual statement. Their intent is to assess the usefulness of these

statements, the rigor and discipline of the process by which they are developed and the degree to which they represent an accurate assessment of management controls and a full disclosure of material weaknesses. As part of this review, they will also make an assessment of your efforts to implement the management control process.

Regarding the Transformation of Installation Management (TIM), management controls in garrison functions will continue to be addressed in MACOM feeder statements through this FY 2002 annual statement cycle. The new Installation Management Activity will be tasked to address management controls in garrison functions in its feeder statement beginning with the FY 2003 annual statement cycle.

Your statement is due by September 27, 2002. Due to the limited time available to develop and staff the Secretary's annual statement, we cannot not grant extensions. Your statements should be addressed to the Assistant Secretary of the Army (Financial Management and Comptroller) and delivered to Room 3A322 in the Pentagon or mailed ATTN: SAFM-FOI, 109 Army Pentagon, Washington, DC 20310-0109. Advance copies of your statements may be transmitted to us by FAX at (703) 614-9391 (DSN 224-9391) or by e-mail, but must be followed immediately by the original.

Please confirm receipt of this memorandum. Our contacts for the annual statement process are Mr. William Harris, (703) 693-2770 or harriswehqda.army.mil, and Ms. Debra Rinderknecht, (703) 693-2761 or [debra.rinderknecht\(cD-hqda.army.mil](mailto:debra.rinderknecht(cD-hqda.army.mil).

Sandra L. Pack
Assistant Secretary of the Army
(Financial Management and Comptroller)

Enclosures

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US ARMY AUDIT AGENCY, ATTN: SAAG-FAP

MILESTONE SCHEDULE
FY 2002 ANNUAL STATEMENT OF ASSURANCE

September 27: Annual statements from MACOMs and separate-reporting FOAs due to OASA (FM&C)

October 11: Annual statements from HQDA Principals due to OASA (FM&C)

October 18: Draft Army statement delivered to HQDA Staff elements for coordination

October 25: HQDA Staff comments on draft Army statement due at OASA (FM&C)

November (TBD): Senior Level Steering Group convened to review proposed Army statement

November (TBD): Secretary of the Army briefed on proposed Army statement

November 15: Signed Army statement delivered to USD (Comptroller) for the Secretary of Defense

ENCLOSURE 1

GUIDELINES FOR PREPARATION OF THE FY 2002 ANNUAL STATEMENT OF ASSURANCE

COVER MEMORANDUM

The head of the reporting organization or their principal deputy must sign the cover memorandum.

It must provide the organization head's assessment as to whether there is reasonable assurance that the organization's management controls are in place and operating effectively. This statement of assurance must take one of three forms:

-- An unqualified statement of assurance ("I have reasonable assurance that..."). Each unqualified statement must have a firm basis for that position, and this basis must be clearly described in Tab A.

-- A qualified statement of assurance ("I have reasonable assurance that, except for....."). The material weaknesses in management controls that preclude an unqualified statement should be cited in the cover memorandum.

-- A negative statement ("I do not have reasonable assurance that").

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The balance of the annual statement consists of several sections that support the assertion of reasonable assurance and provide information on material weaknesses reported. This enclosure provides guidance for preparing each of these sections:

How the Assessment was Conducted	TAB A
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Uncorrected Material Weaknesses	TAB B-2
Corrected Material Weaknesses	TAB B-3

ENCLOSURE 2

TAB A

HOW THE ASSESSMENT WAS CONDUCTED

The purpose of your annual statement is to provide an assessment of whether the management controls within your organization provide reasonable assurance that the objectives of the Federal Manager's Financial Integrity Act were met. TAB A describes how this assessment was conducted and provides support for that assessment. Reasonable assurance refers to a satisfactory level of management confidence that management controls are in place and operating as intended. Inherently a management judgment, reasonable assurance recognizes that there are acceptable levels of risk that cannot be avoided because the cost of absolute control would exceed the benefits derived.

The intent of these annual statements is not to offer up a "school solution" of reasonable assurance. They must provide an objective assessment of the organization's management controls and identify material weaknesses and plans for their correction. The Congress, Comptroller General, Office of Management and Budget, USD (Comptroller) and DoD Inspector General have recently given greater attention to assertions of reasonable assurance in agency annual statements. In an effort to provide more objective assessments, the Army has qualified its annual statements since FY 1993, as did DoD. A qualified statement is nothing more than an objective recognition that management controls need improvement. Reporting organizations should give serious consideration to submitting qualified statements where appropriate.

Your annual statement should describe how your determination of reasonable assurance was reached. This description may cite processes such as management control evaluations, audit or inspection reports and other senior management reviews. You should also include specific information that addresses the areas of leadership emphasis, training, and execution of the management control process:

- The section on LEADERSHIP EMPHASIS should address any leadership correspondence emphasizing the importance of effective management controls and the use of senior management councils to advise on management control issues and monitor progress on the correction of previously reported material weaknesses.

- The section on TRAINING should indicate the type of training provided (in-house training, USDA courses or training provided by the HQDA management control staff) and the total number of personnel receiving each type of training.

- The section on EXECUTION should address efforts to assess the effectiveness of your management control process and improve its execution, and efforts to embedding management control evaluations in existing management review processes.

Each year, the U. S. Army Audit Agency (USAAA) conducts a review of the Army's management control process. In past reviews, they noted some shortcomings in the material weaknesses reported by MACOMs in their feeder statements. These include weaknesses with cryptic or inadequate descriptions (making assessment difficult) and weaknesses that address problems in a "piecemeal" approach (rather than addressing the larger, systemic problems).

USAAA will focus on feeder statements that support the Secretary's annual statement. Their intent is to assess the usefulness of these statements, the rigor and discipline of the process by which they are developed and the degree to which they represent an accurate assessment of management controls and a full disclosure of material weaknesses. As part of this review, they will also make an assessment of your efforts to implement the management control process.

TAB B
MATERIAL WEAKNESSES

Identifying and correcting weaknesses in management controls is the responsibility of management at all levels. Whether or not a weakness should be considered material and reported in the annual statement is a management judgment about the relative significance of the problem. There are two essential criteria a weakness must meet to be considered material:

- First, it must involve a weakness in management controls: management controls are not in place, they are in place but are not being used, or they are in place and used but are inadequate).
- Second, it must warrant the attention of the next level of command, because that next level either must take action or must be aware of the problem. These two criteria and other factors to consider are outlined at Attachment 1.

MACOMs may identify material weaknesses that -- in their view -- require specific action by HQDA offices. In such cases, we will task the HQDA office to provide a response to the MACOM (i.e., whether the HQDA office agrees with the recommended action, what action it has taken or will take, etc). The material weakness format was revised to show HQDA offices involved in the correction of a weakness. In the FY 2001 annual statement cycle, however, MACOMs rarely indicated what specific action they felt were required. For us to assist you, you must indicate the HQDA office and the action it must take for the weakness to be corrected.

Many sources can be used to identify potential material weaknesses, to include: audit or inspection findings, criminal investigation results, management control evaluations, functional management review processes, and management's general knowledge of operational problems. Audit and inspection reports will often recommend reporting specific problems as material weaknesses. These recommendations should be given careful consideration, but the determination to report a material weakness is ultimately a management judgment.

The fact that a weakness was corrected during the year doesn't mean it should not be reported -- the issue is whether the weakness is material. One primary reason for reporting material weaknesses is to share important information with the next level of command. Reporting material weaknesses that were found and corrected during the year reflects positively on the reporting organization,

Finally, both the USD (Comptroller) and the USAAA have noted that too many material weaknesses address problems in a "piecemeal" fashion, rather than focusing on the larger, overall management control problem. MACOMs should consider weaknesses from their subordinate elements as input for the identification and development of larger MACOM-level weaknesses.

Tab B consists of the following:

-- Tab B-1, List of Material Weaknesses. This Tab should list all material weaknesses being reported, with uncorrected and corrected weaknesses listed separately. For each weakness, indicate the title of the weakness and the fiscal year it was first identified (beginning with the most recent fiscal year and working back).

-- Tab B-2, Uncorrected Material Weaknesses. This Tab includes separate descriptions of each uncorrected material weakness, **prepared in accordance with the format and instructions at Attachment 2**. These weaknesses should be in the same sequence as the listing in Tab B-1.

-- Tab B-3, Corrected Material Weaknesses. This Tab includes separate descriptions of each corrected material weakness, **prepared in accordance with the format and instructions at Attachment 2**. These weaknesses should be in the same sequence as the listing in Tab B-1.

MATERIAL WEAKNESS DETERMINATIONS

A MATERIAL WEAKNESS MUST MEET TWO ESSENTIAL CRITERIA:

1. It must involve a weakness in management controls (i.e., management controls are not in place, they are not being used, or they are inadequate).
2. It must warrant the attention of the next higher level of command, which must take action or must be aware of the problem.

OTHER FACTORS TO CONSIDER:

It is usually clear whether a problem involves a management control weakness. It is also usually clear whether the next level of command must take corrective action. Whether the next level of command needs to be aware of a management control weakness is a more subjective management judgment. Consideration of the following factors may help in making this management judgment.

- Actual or potential loss of resources.
- Sensitivity of resources involved.
- Magnitude of funds, property or other resources involved.
- Frequency of actual and/or potential loss.
- Current or probable media interest (adverse publicity).
- Current or probable Congressional interest (adverse publicity).
- Unreliable information causing unsound management decisions.
- Diminished credibility or reputation of Army management.
- Impaired fulfillment of essential mission.
- Violation of statutory or regulatory requirements.
- Impact on information security.
- Deprived the public of needed Government services.

ATTACHMENT 1 TO TAB B

MATERIAL WEAKNESS FORMAT

Local ID #:

Title and Description of Material Weakness:

Functional Category:

Pace of Corrective Action:

Year Identified:

Original Targeted Correction Date:

Targeted Correction Date in Last Year's Report:

Current Target Date:

Reason for Change in Date(s):

Component/Appropriation/Account Number:

Validation Process:

Results Indicators:

Source(s) Identifying Weakness:

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:

Milestone:

B. Planned Milestones (Fiscal Year 2003):

Date:

Milestone:

C. Planned Milestones (Beyond Fiscal Year 2003):

Date:

Milestone:

HQDA Offices Participating in Corrective Action:

MACOM Point of Contact:

ATTACHMENT 2 TO TAB B

INSTRUCTIONS FOR MATERIAL WEAKNESSES FORMAT

Local ID #: Your organization's identification #
for the MW

Title and Description of Material Weakness. The title should be short. The description should permit a full understanding of the problem, its cause and impact by a member of Congress or the general public. (If a material weakness was previously reported as corrected and must be reopened, it should not be reported as a new weakness. The material weakness should retain its earlier title and identification number with a parenthetical notation in the description that it was previously reported as closed in the FY XX annual assurance statement).

Functional Category: Cite one of the broad DoD functional categories shown at Attachment 3 (extracted from DoDI 5010.40).

Pace of Corrective Action:

Year Identified: The FY the weakness was first reported in your assurance statement.

Original Targeted Correction Date: The FY that correction was targeted for when the weakness was first reported.

Targeted Correction Date in Last Year's Report: The FY that correction was targeted for in last year's report. If this is a new weakness, enter "N/A".

Current Target Date: The FY that correction is now targeted for. If this is a new weakness, enter "N/A".

Reason for Change in Date(s): If the "Current Target Date" is later than the "Targeted Correction Date in Last Year's Report", explain what caused this change. If these two items are the same date or "N/A", enter "N/A".

Component/Appropriation/Account Number: Component is "Army". Identify the appropriation(s) and account number(s) associated with this correction (Ex: Army/Other Procurement, Army/Acct #).

Validation Process: Indicate the method to be used to validate the effectiveness of the corrective actions and the date it will take place. Indicate if the USAAA or DA Inspector General has a role in this validation.

Results Indicators: Describe the beneficial results that have been or will be achieved for the Army by the corrective actions, using quantitative and/or qualitative measures.

Sources) Identifying Weakness: List all sources, to include: management control evaluations; GAO, DoDIG, USAAA or DA Inspector General findings (**cite the title, number and date of the audit/inspection report**); local inspector general or internal review findings; or other management evaluations.

Major Milestones in Corrective Action: Indicate the major milestones (primary corrective actions) required to correct the weakness. Milestones should be directly related to correction of the weakness and should be stated in the present tense.

Validation of corrective actions is receiving increased attention by the Congress and GAO. The Comptroller General expressed concern that many weaknesses are rooted in the failure to comply with existing policy, yet a third of all corrective actions involve policy changes. It is crucial to validate whether a policy change actually corrects a material weakness. **DoD policy requires that validation occur before material weaknesses are reported as closed and that each material weakness includes a validation milestone as the last corrective action.**

Milestone dates should be established only for March or September (i.e., 3/02 or 9/02). These are based on the "as of dates for the annual statement (end of September) and at mid-year (end of March). Using only semi-annual milestone dates will reduce the need to explain minor slips in milestones.

Milestones may be added or deleted for previously reported material weaknesses, but an audit trail must be provided. When adding a milestone, enter "(added)" under the new milestone's date. When deleting a milestone, enter "(deleted)" under the date and provide a short explanation of why it was deleted at the end of the milestone description.

A. Completed Milestones:

Date:	Milestone:
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B. Planned Milestones (Fiscal Year 2003):

Date:	Milestone:
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C. Planned Milestones (Beyond Fiscal Year 2003):

Date:	Milestone:
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HQDA Offices Participating in Corrective Actions: For weaknesses that require HQDA action to correct, please indicate the specific HQDA office that must take action, to include a POC with phone number and/or email address, and the specific action you believe that office must take. If you are reporting the weakness for information only, indicate "N/A".

MACOM Point of Contact: The name, office symbol, and telephone number of the individual who is most knowledgeable about and can respond to specific inquiries about the material weakness.

DOD FUNCTIONAL CATEGORIES

Research, Development, Test, and Evaluation
Major Systems Acquisition
Procurement
Contract Administration
Force Readiness
Manufacturing, Maintenance, and Repair
Supply Operations
Property Management
Communications and/or Intelligence and/or Security
Information Technology
Personnel and/or Organization Management
Comptroller and/or Resource Management
Support Services
Security Assistance
Other (Primarily Transportation)

ATTACHMENT 3 TO TAB B